Macroeconomic Outlook

HIGHLIGHTS

- **Global economy to grow at a more moderate pace in the fourth quarter of 2018. In 2019, global growth is expected to remain sustained.**
- **The Malaysian economy will continue to remain on a steady growth path in 2018.**
- **Headline inflation is expected to increase going forward primarily due to higher projected global oil prices and the prospective floating of fuel prices.**

Moderating global growth momentum in the fourth quarter of 2018, with sustained performance in 2019

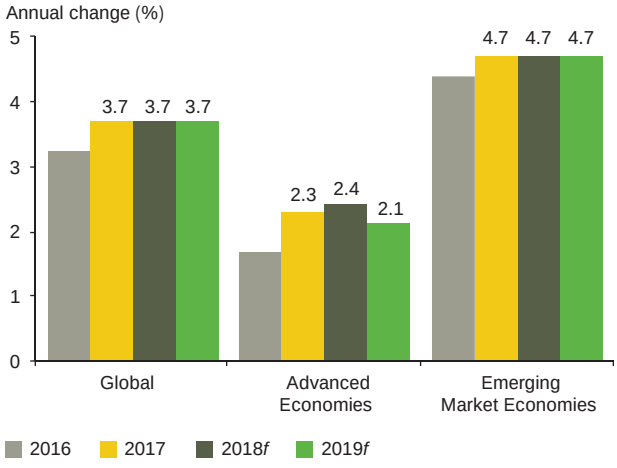
The global growth momentum is projected to moderate in the fourth quarter of the year amidst intensifying trade tensions and tightening financial conditions among several emerging market economies. Going forward, the global economy is expected to expand at a sustained pace in 2019.

The global expansion will remain supported mainly by the advanced economies, particularly the US. Growth in selected emerging market economies (EMEs) will be weighed by slower trade activity amid steady domestic demand. Country-specific vulnerabilities and tighter domestic financial conditions will also weigh on growth prospects of several EMEs.

In advanced economies, strong labour conditions will support private consumption. In the US, the effects from expansionary fiscal policies that were introduced in 2017 and 2018 will continue to support robust business spending for the rest of the year, but is expected to wane in 2019. Meanwhile, investment activity in the euro area is expected to moderate, amid a normalisation in construction-related investments.

Sustained global growth in 2019

Chart 27: GDP Growth



Source: IMF World Economic Outlook (October 2018)

Growth in the Asian region is expected to moderate further. Of significance, growth in PR China is expected to be slower, reflecting ongoing structural reforms in the country. The continued normalisation of the global trade cycle as well as higher tariffs on its exports to the US will weigh on China's exports. In some Asian economies, expansionary fiscal measures are anticipated to stimulate higher infrastructure spending and employment.

Going forward, downside risks to global growth remain elevated. Further escalation of trade tensions will likely be detrimental to global growth and trade. Latest developments suggest that trade tensions are likely to persist in the coming quarters, following the announcement by the US administration of a further tariff hike to 25% from 10% on USD200bn of imports from PR China effective from January 2019. A further increase in tariff on USD267bn of products from PR China has also been proposed, if PR China retaliates.

Downside risks also arise from the ongoing monetary policy normalisation among the advanced economies, particularly the US. Amid rising inflationary pressures, a faster-than-expected pace of interest rate increase could accelerate capital outflows from emerging economies, posing further risk to the global outlook. Given the heightened downside risks, the international financial markets are expected to continue experiencing bouts of volatility going forward.

The Malaysian economy to remain on a steady growth path in 2018

Despite the heightened global trade tensions and tighter financial conditions, Malaysia's economy continued to register a sustained growth in the third quarter.

For the remainder of the year, growth is expected to improve and benefit from the gradual recovery in commodity production. On the external front, higher commodity production would provide support to improvements in commodity exports. However, domestic demand is projected to expand at a more moderate pace, attributed to slower private sector spending. Going into 2019, growth prospects for the Malaysian economy are expected to remain driven by private sector activity amid the continued rationalisation of public sector expenditure, particularly public investment by public corporations. Exports are likely to moderate but would be supported by demand from major trade partners and the gradual recovery in commodities exports.

Risks to growth remain tilted to the downside. These stem mainly from a more persistent-than-expected supply disruption in the commodity sector and a potential escalation of trade tensions between the US and PR China.

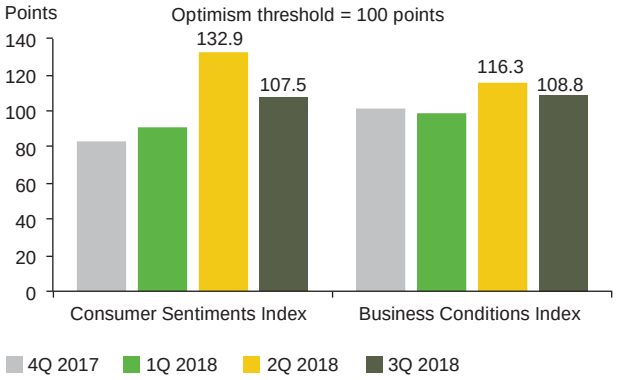
While headline inflation is expected to be low in 2018, it is projected to increase going forward primarily due to higher projected global oil prices and the prospective floating of fuel prices

The annual average headline inflation is expected to be low in 2018, mainly reflecting the impact from the GST zerorisation and the stable domestic fuel prices. Going forward, headline inflation is expected to increase mainly due to higher projected global oil prices and the floating of fuel prices in 2Q 2019. While the impact of the consumption tax policy will contribute to higher headline inflation in 2019, it will lapse towards the end of 2019.

Underlying inflation, which excludes the impact of consumption tax policy changes, is expected to remain contained in the absence of strong demand pressures.

Continued expansion in sentiment indicators in 3Q 2018

Chart 28: MIER Consumer Sentiments and Business Conditions Index



Source: Malaysian Institute of Economic Research (MIER)